

RAILWAY AUDIT.

A PLAN

FOR THE

AUDIT OF ACCOUNTS

IN

Railway and other Joint-stock Companies.

BY

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RAILWAY AUDIT.

A FEW years ago, when the Banking interests were rushing fast and mightily on, as the Americans say, "to immortal smash," the number and amount of the bankruptcies that took place induced me to examine the subject somewhat in detail, and to publish the result of my inquiries. My volume, entitled "Banks and Bankers," was published by Messrs. Whittaker, and well spoken of by the newspapers. Some of the things which I pointed out as desirable have since been adopted by the government, and are now everywhere put in force by the law of the land. Others remained unnoticed, or, at least, unadopted. I make the remark here, because amongst the latter was one of which the joint-stock banks stood much in need, and which will still be found equally demanded by them, by railway and all other companies incorporated for purposes of trade.

I shall, perhaps, best explain myself by quoting what I wrote upon this point in 1842. At page 307 of "Banks and Bankers," I said, "I would have them (the joint-stock banks) make public a quarterly account of their assets and liabilities according to a prescribed form, which, without being too searching or improperly revealing details, should present a fair view of the condition and resources of every bank. I would insist upon

a full audit, once a year, of the whole affairs of the company by competent persons, specially appointed for the purpose, not by the directors but by the shareholders, at a public meeting ; and I would have the balance-sheet of the accounts, after having been thus audited, subscribed before a magistrate by the auditors, upon their solemn asseveration, in lieu of an oath, with a certificate annexed as to the correctness of their audit, the correspondence of the accounts themselves with the quarterly returns, to be published as already suggested, and the general conformity of the transactions with legitimate banking principles. I would make it a misdemeanor upon the part of the auditors to give a false or wilfully incorrect certificate, and whenever a joint-stock bank failed I would have its affairs wound up by a public officer."

Such was my recommendation in 1842, and not only are all joint-stock banks now required to publish periodical statements of their circulation, but every joint-stock company, when unable to meet its engagements, may be made bankrupt with as much ease and expedition as any private firm.

These have been found useful improvements. Had the further step of an audit, such as was then recommended, been provided by law, vast are the sums of money which would have been saved to the nation, and far from light the amount of speculation that would have been uncommitted by individuals. The desire to make myself useful prompts me to resume the subject, and on this occasion to apply my arguments to all the departments of joint-stock enterprise. For if there be one thing clear in these matters, it is this: if we would deal with the question effectively, we must include in our plans and corrections not companies of

one class but of all classes; for the mischief is not special or particular—it is general; it has shown itself in all companies; and if the public attention now confines itself to the financial irregularities of our railway bodies, it is only because these happen to present the last form in which the mischief has made its appearance; the truth being, that all our companies have exhibited its ravages in their turn.

Hence it is that the present demand for a government audit of railway accounts resembles many another cry that has been raised and sunk again of late years, producing only a temporary effect. There is scarcely a department of combined enterprise in which the freedom we enjoy to speculate as we please, more than other nations, has not led to flagrant abuses. As these have been detected and exposed they have called down the loud voice of public censure upon the offenders, and they have repeatedly prompted the suggestion that all undertakings of the kind could be much better ordered by the government than by individuals. The evil, therefore, as well as its cure, is rather an old affair, and would be intolerable, but that its visits have been intermittent and its forms somewhat varied.

There is then in the present complaint nothing new, nor anything exceptional. What has happened recently in our railway affairs has occurred over and over again, not only after the same fashion, but almost under identical circumstances—in mines, in canals, in banks, and every other form of joint-stock combination. If there be any one curious to ascertain how very little of novelty there is in the existing state of our railway interests, and in the train of circumstances which have brought it so low, he should consult two works, easily to be procured

at the circulating libraries,—“The History of the Bank of England,” and “Chronicles of the Stock Exchange,” by Mr. Francis. It will there be seen that our railway adventures, mishaps, reverses, and misdeeds, all included, are but simple reproductions of a piece of extravagance, which the people of England have been in the habit of playing at periodical intervals for the last two centuries, and with so few changes of circumstance or variety of result, that, when we have examined the chain of events throughout, striking and calamitous as we shall find the particulars, the whole, to a certain extent, will appear somewhat stupefying from the dull uniformity of repetition. Over and over again we meet with the same thing, and nothing but the same thing. The trick is always played in one way. The only wonder is, how the same people could do precisely the same thing so very often, in precisely the same way, and always with the same hurt and damage to themselves.

The proverb may be true which says that the burned child dreads the fire—but evidently the force of the adage does not extend to grown-up children, for they have been burning their fingers ever so often in the matter before us, and the only lesson they have drawn from their experience seems to be an itch for burning them again. Perhaps, however, the intention is not altogether so bad as that,—our people, it is possible, are not so very stupid as they would then be proved to be. They only try perhaps, after all, to learn how to hold their hands to a burning fire without getting them burned. Still, as the experiment invariably ends with a scorch and a blister, and sometimes with the loss of the limb itself, the foolhardiness that will persist in the risk is, to say the least of it, a strong instance of the wil-

ful obstinacy of poor human nature, as exemplified in the character of John Bull.

Whenever the fingers are burned, a cure is always hastily called for by those who have been burned the most severely, and their object in this, as in the diversion that has hurt them, is always the same—they call for the appointment of a government officer, who shall from time to time regulate how they shall hold their hands to the fire without being burned. Whether this special interference shall be crowned with success by keeping down the heat of the fire, or by increasing the distance at which the venturesome hand shall be allowed to approach it, is a perplexing difficulty which has not as yet been solved. When duly considered, that difficulty must be held to be not a little perplexing; for evidently, if the heat of the fire should be kept so low, or the distance from it so great, as that no hands can be burned, why then there will be no fun in the thing, and the government officer will enjoy a sinecure. This seems absurd to read,—but it is quite true;—for such is poor human nature. Truth is stranger than fiction—folly so foolish that it would appear incredible if it was always painted as it really is.

As we have seen, and are unquestionably destined still to see, a great deal of the money mania and the panics produced by that national diversion, a few peculiar facts are to be mentioned which have hitherto presented themselves whenever it has appeared. There would seem to be something like a law for the production of these visitations periodically. The intervals at which they occur, moreover, are circles of ten years:—that is, if no great political convulsion should take place (such as the wars of the French revolution) to disturb and dis-

place all ordinary transactions and their legitimate influences, it would appear as if a plethora of money will be forthcoming every tenth year, and give rise to an excess of speculation and gambling in some newfangled schemes for making a fortune in a moment, which again will bring on a terrible reaction, including a fall in the prices of all monetary securities, an extreme scarcity of gold, and severe restrictions on the current of trade and commerce, with the usual accompaniments of penury, depression, bankruptcy, and suffering in all directions.

Mr. Tooke, in his "History of Prices," notices two decennial epochs of panic—those of 1782 and 1792. These were both produced by an enlarged issue of notes from the Bank of England. In 1781, the average circulation of the bank was 7,624,765*l.*, with an average stock of coin and bullion of 3,071,265*l.* In 1782, the directors pushed the circulation up to 9,600,000*l.*: a mania was thus created, and was immediately followed by a panic, when the notes in circulation were reduced in nine months to 5,994,000*l.*, and the stock of bullion sunk to 955,635*l.*

Our wars with Napoleon, diverting the natural flow of our currency and our trade in all its ramifications, constitute an exceptional period. But it is particularly worthy of notice that, the peace of Europe having been settled in 1815, we had a frightful panic immediately afterwards, and have had ever since a decennial period of flourishing plenty immediately succeeded by an exhausting panic. We were in a state of heyday hope and confidence when we beat Napoleon, and our long war with him was for us gloriously closed; but that was quickly overtaken by a panic in 1815: thenceforward

the years 1825-6, 1835-6, and 1845-6, substantiate the theory strongly enough. On each of these occasions millions were won and still more lost.

Not the least curious thing observable in these recurrences is the invariable rise and interference of circumstances not previously apprehended, nor growing out of events immediately antecedent, which stave off the time of plethora until we have wound round the full circle of ten years more. For instance, the immediate cause of the paucity ceases to operate, the currency so lately deranged flows in a full and regular channel, credit revives, trade is active, and we appear to stand once more on the verge of prosperity; but some strong and sweeping action, of which no one had thought, and for which all are unprepared, suddenly takes place, and the good time coming is still held aloof, the golden age is still deferred. Any one who will take the trouble to look back and mark the series of events which affected the money market between the years 1826 and 1835, and between 1836 and 1845, will be sure to find sufficient foundation for the remark here made. Of our state since 1846 it will be enough to point to the good condition of the currency in the last two years, to the potato rot in Ireland, and the continental revolutions of 1848, as matters still further suggestive of the correctness of the theory as far as relates to the subsequent time. In the whole there is but one thing that seems to be certain—it is a necessary precedent of a plethora of money and a consequent mania, that we should have at least two good harvests in succession. All other things may favour the grand result, but there is no way of giving money to the masses until the plenty which springs from a good harvest has spread throughout the land. When the wants of all

classes have been supplied, when there is comfort and something over amongst the poor, then you really may count on a national surplus ; and when that happy point has been attained, you may be pretty sure that the whole population, high and low, will soon fall to play at pitch and toss with their loose money.

It is matter of hope that wise men may always be found, but it is matter of certainty that there will be foolish ones, while the world lasts, and society turns it to account somehow or other. This proposition might be proved mathematically, because, from the multitude in which the latter appear, compared with the paucity of the former, it is demoustrable that cap and bells will never disappear in the wear and tear of the human race. Another remark to be safely made, is that the heroes of speculation, who give animation and activity to the masses, or dead weight of our social system, never fail to present themselves when the occasion arises. History has made the South Sea scheme immortal, and crowned the genius of Law with a reputation commensurate with the ingenuity and boldness of his inventive faculties. All that artistic finance can discover or display was evolved in the career of that subtle adventurer. But when his feats were exhibited, and their moral pointed, the interest of the subject was exhausted—for, though always preserved and continued, the fulness of his performance left his followers nothing new to produce ; and our historians, recoiling from the insipidity of a twice-told tale, have passed over in silence a train of incessant enormities—for the family, of which Law may be recognised as the head, has never ceased to run an active race. He was the first, and it is perhaps only as the first that he is to be regarded as the greatest of that fertile family.

Others, less known at the present day, if they did not eclipse certainly equalled him in the refinement of their contrivances, and the vastness of their views and operations. The frauds of the Charitable Corporation were to the full as gross as any that have ever been committed. Alexander Fordyce was, in his time, as consummate a speculator as his fellow-countryman Law; and George Hudson has just shown us that the field for adventurers of this kind has been in no ways contracted, and also that the talent for turning it to advantage has not been lost amongst us.

Neither a history nor even an outline of the progress and extent of speculation and its heavy penalties in England can be given here; but, as the past is our warrant for assuming that these are things with which we are sure to be frequently visited, and as the present seems to be a very favourable opportunity for the contrivance of means by which the future may be rendered somewhat tolerable in these respects, let us briefly note the salient points of the three memorable epochs already mentioned—1825-26, 1835-36, 1845-46.

In 1825, there were 350 schemes propounded, with a proposed capital of 350 millions; of this amount it was calculated, a few years afterwards, that something under 50 millions was paid up: so much for the mania. When the panic came, there was a daily calendar of bankrupt banks, merchants, and commercial disasters. City news and money matters engrossed the attention of the public so vividly, that the newspapers found it necessary to devote a separate column every morning to intelligence of that kind. It is to the panic of 1825 that we are to refer the origin of the "City Article," as it is termed in the *Times* and other daily papers. From

the month of November, 1825, to February, 1826, the funds fell twenty per cent., eight of which were in the former year. The Bank of England, yielding to the urgent counsel of the government, made extraordinary efforts to overcome this state of things. Three millions were advanced by way of temporary accommodation to trade; and the circulation, which on December 3, 1825, was 17,477,294*l.*, was raised, by December 31, 1825, to 25,709,425*l.*, or eight millions, in a month. But all in vain: distress was not removed, nor confidence restored, by these proceedings. Banks and mercantile firms continued to break all through the year 1826; manufacturers stopped their works; and the labouring classes rose in large bodies, taking a violent revenge, for the sufferings they had to endure, upon the property from which they conceived they ought to have derived subsistence. In one week, as many as 850 power-looms were destroyed by the mob in Lancashire. On one day, the stock of gold in the Bank of England was as low as £40,000; and that was the property of two country bankers, who had procured it to meet their own wants.

In 1835, the number of schemes brought forward was 300, of which the chief were for railways. The total capital proposed to be raised was under 150 millions, and the number of shares to be issued was 2,538,690. As 1825 had not been quite forgotten, the shadow of this panic was foreseen; but it could not be prevented, though at the time not a few expedients were resorted to for the purpose. The Bank of England first tried to arrest its progress by raising the circulation: a million of notes were issued; but they availed nothing.

The bank of Esdaile and Co., one of the most respectable in London, became involved, and all the city bank-

ers, with two exceptions—Jones Loyd and Grotes—subscribed 5000*l.* each, to save their brother in distress; but to no purpose: Esdaile's stopped payment, and others followed rapidly in its wake. Consols fell four per cent. The Bank of England tried, but could not sell the dead weight; distrust became general, and credit all but extinct. In vain was silver sent abroad to bring back gold in exchange; the discount and commission on the very first bills in the London market rose to eight per cent., while those of the second class were hardly discountable at any price. Of the bankruptcies that now took place, and the extreme depression of manufactures and commerce, it would be impossible to convey an account at once faithful and particular. Prices fell forty per cent.; in the manufacturing districts there was no employment, and merchants stopped payment in multitudes,—many of them, not because they were bankrupt and had no property, but because no market was to be had for their goods, no discount for their bills, no advance upon their stocks. 130 private banks disappeared in this crisis, the majority of which merged into joint-stock concerns.

I purposely avoid an account or description of the mania of 1845, and the pause it begot. No counting up of the number of schemes then put forward, or the number of shares thrown upon the market—no computation of the premiums to which they were pushed, or the discounts to which they afterwards fell—no summary of the consequent derangement of our financial affairs, and our mercantile sufferings, could avail to produce upon the mind of any reader of these pages a stronger or deeper impression than his own experience of the subject, and the time will in all probability supply. It is talked of every-

where; go where you will—in public places, and in private society, the railway mania, railway losses, and railway frauds, are the never-failing topics of astonishment and reprobation. To judge by what one hears every day, or rather hour, it might be supposed that until we speculated in railways we had been the most inexperienced and innocent of adventurers; had never before played at a game of chance, staked money unbecomingly, or become embarrassed, if not defiled, by gambling transactions. Let us, by way of a wholesome reminiscence, sum up the diversions of our own age in one other line—the banking one. We have gone chin-deep into the thing in twenty other ways—but we shall take this as a sample.

The panic of 1825-6 shattered banks and bankers in all directions. Men of straw were they, and houses of sand, and they were all blown down by the rough blast which they were never formed to withstand. The popular vent of speculation at that time, and for many years afterwards, was through banking: hence the failures, and the detected frauds in banking. The exact particulars are not easily given which show the extent to which these prevailed. There was a motion made on agricultural distress in 1830, by the Duke of Richmond, in the course of which the Duke of Buckingham said that 165 country bankers had been obliged to suspend their payments in the panic of 1825-6. Sir M. White Ridley, himself a banker, estimated the number at sixty-three. Mr. Tooke, in his "History of Prices," vol. ii. p. 161, says nearly seventy banks stopped payment in the course of the single month of December, 1825. Mr. Gilbart, "History and Principles of Banking," p. 103, states the number of commissions in bankruptcy issued

against country bankers to have been, in 1825, thirty-seven, and in 1826, forty-three. I myself have made some inquiries, the result of which leads me to say that 160 banks stopped payment in this panic, of which fifty-six were gazetted bankrupts.

The damage then done to such establishments is further shown by a reference to the number of licences granted to country bankers by the stamp officers. These were, 940 in the year 1814; 752 in the year 1816; and 552 in the year 1826. Such was the rate of extinction amongst the country bankers twenty-five years ago, and they have gone on failing and dying away ever since; exhibiting, as they vanished from time to time, circumstances of fraud, misconduct, and disgrace, as flagrant and unquestionable as it is possible to conceive. There was the case of Rowland Steveuson, in 1828, where the debts proved were 485,000*l.*, of which 367,000*l.* were cash balances. Joseph, John, and William Foster, of Carlisle, broke in 1836, and then it was admitted that they had not made up a statement or balance-sheet of their affairs for the preceding twelve years; and when that document was at last made out, the debtor side of it amounted to 556,138*l.* Esdaile's, as already stated, failed in 1837 for 900,000*l.* In 1840, Sparkes, of Guildford, threw himself into the river, after fraudulently selling out customers' stock to the amount of 58,918*l.* John Wright and Co., in 1840, furnished another noted case; and so, in the same year, did Ridge and Newland, Chichester; Hammersleys, in Pall Mall; and Daintry, Ryle, and Ravenscroft, Manchester; Hobhouse, of Bath, in 1841; and Wigney's, of Brighton, in 1842. Wigney had his customers' money in a brewery at Brighton, and in a shawl factory at Glasgow; Hammersley, in a soap factory in

the Borough; Foster, in mining shares: in a word, all sorts of misapplications and abuses of trust were shown, and, after having been denounced and deplored in their turns, they passed from the public mind and were talked of no longer.

This brings us to the mania in joint-stock-banks: these, as is well known, had their origin in the convulsion occasioned by the numerous failures amongst the private bankers at the end of 1825. Their progress towards 1836 was excessive. Mr. P. Thompson, afterwards Lord Sydenham, was then President of the Board of Trade, and he caused a register to be kept of the number of joint-stock banks projected up to that year. It thus appeared that the number was between 300 and 400, with, amongst them, a proposed capital of 200 millions. It is unnecessary to say how many of these never formed establishments; or how many, having entered upon business, were obliged to stop under circumstances of disgraceful misconduct and culpable negligence. It will be enough to indicate what might be urged in this respect, by naming the suspension of the Imperial and Commercial Banks at Manchester; the Walsall and Marylebone Banks; the Bank of Manchester, and the Royal Bank at Liverpool. In all these cases, and in others too numerous to mention, there must have been frightful losses of money; and there is, I will add, no security against the recurrence of these, either for the shareholders or for the public, but in an efficient audit, by auditors elected independently, and made personally responsible for the correctness of their own audit.

And now a word upon speculation in banking—private and joint-stock—because it is nothing but the counterpart of all that is said and feared respecting railways.

What was the ease made out against the private bankers? Why that they violated the trust reposed in them, misapplied their customers' money, and became fraudulent traders,—sweeping, when they fell, whole towns and counties into one common ruin. What was the ease made out against the joint-stock banks? Just the same in substance, though not exactly so in form: either managers made free with the cash, or the directors as a body neglected their duty, by transferring to a few individuals the important functions committed to the whole board, and then credit was unduly given to relations, and particular connections were favoured with advances; until, made reckless and desperate by the extent of the accommodation afforded them, and the difficulties thus engendered, bankruptcy ensued; and at last the bank, coming in to claim its share of the wreck, had to exhibit trust betrayed, shareholders abused, and worst of all, false reports and false accounts from time to time of the state of its affairs; now, facts suppressed, and now facts distorted.

All these things have happened repeatedly: the Bank of Manchester failed in 1842, showing losses to the extent of 800,000*l.*, in consequence of misdoings falling within the general description just given; and the Royal Bank of Liverpool, more recently, got into a similar predicament. It was a necessary consequence, on both occasions, that there should be a great sensation; all the organs of public opinion thought it becoming to read the public grave and severe lectures; every man who spoke raised his voice to a pitch of indignation: on all sides we were told that something must be done, that the government must interfere; but nothing was done, and why?—because, in truth, it was not the impropriety of

the acts committed, but the magnitude of the amount lost in each of these cases, that stunned men's minds. The people were not moved by a sense of the culpability of the guilty parties; they were only shocked at the idea of 800,000*l.* having been lost. It was the amount that staggered: and such is still the temper of the public mind. No series of events however numerous, prolonged, or decided in character, will excite much attention; unless there be in each a certain amount of enormity. The constitution of modern society is so lethargic that it requires a galvanic battery to rouse it into active exertion. The malpractices, in the case of the Bank of Manchester and the Royal Bank of Liverpool, were no worse, whether we regard banking, or morals, or law, than had been disclosed in many preceding cases; such, for instance, as the Phoenix, Walsall, and Marylebone Banks; but in these the misdeeds were on a small scale—the ruin then fell upon small people. When nearly a million went in one fell swoop, all hands were held up, and all tongues let loose. The magnitude of the money made the offence respectable, and drew towards it a certain amount of public sympathy, which evaporated in due course; and there the matter ended.

A great deal of virtuous indignation has been expended in declaiming against the bribery and corruption of railway companies; and beyond all doubt there have been bribery and corruption, and a good deal of both. But what is there in all this that is either new or strange? As a people, we have always been addicted to bribery and corruption. It may be too much to say that we shall never cease to practise them, but to a certainty they are in our day very common offences. Will government auditors be proof against the influence of a vice that has

gathered all ranks into its close embraces? Charles II. and his ministers were bribed by France. Since the revolution we have been content to bribe one another. When there were no longer pensions and titles to be conferred—loans, lotteries, and contracts were resorted to with a lavish prodigality. The public were then plundered in the taxes. Tens and hundreds of thousands, nay millions, were squandered in this way during a single year, and all by government. Peers, members of parliament, bankers, men of all ranks, claimed and obtained their shares of the public spoil. Like all things pushed to excess, this system of venality was ultimately corrected by its own enormities. Men at last grew ashamed of making so much money in so unworthy a manner. A reform of signal value took place in the character of our public men, and the government was left to the patronage of office alone for its means of seducing patriotism from its purity, and winning aspiring talent to the service of party politics. For this reason, especially, it behoves every man to avoid, as an obligation of public duty, the advocacy of any measures which tend to increase the patronage of government. Give patronage enough, and a minister, equally clever and unscrupulous, may band together his faction, reckless of principle and indifferent to the reclamations of the people—for a term of years at least. The thing has been done before and may be done again. But this is a digression. When loans and lotteries no longer afforded facilities for gambling, the joint-stock system opportunely presented itself, and, spreading out its branching arms, reproduced itself in endless varieties. Bribery and corruption took up fresh leases for a new career, and their seducing practices were continued on as exten-

sive a scale, and with results as formidable, as any that had previously appeared. Mines have had their day, and so have canals. Who forgets the mining mania of 1825, when the Bank of England actually ratified the speculation by lending money on mining shares? Are not the ten per cent. dividends, and the cent. per cent. premiums, of our casual companies registered indelibly? The course of bribery and corruption was now reversed. The minister could no longer bribe members of parliament, bank directors, and citizens of sway, at the expense of the people; but the thing was so delightful, that the people took it up voluntarily and did it themselves. Habit was second nature: when the government renounced it, thousands of cliques and coteries set their little goes to work, and ere long the numbers told. Does any man pretend to be acquainted with the progress of speculation, and the joint-stock system, in this country for the last five-and-thirty years, and affect not to know that members and men in office have been bribed with shares? Share-spoil has cost a chairman of committees his place and salary in the House of Commons, and it has enforced other men in office, some to change their situations, and others to resign and retire into private life. So general, in point of fact, has this sort of thing been, that it is impossible to name a place into which it has not penetrated, directly or indirectly. So far here it was the public conspired to plunder themselves; and so far their case is much less deserving of pity than when the plunder was involuntary upon their parts, and the minister of the day made its distribution part of the patronage of his office. The records of the Queen's Bench might be made to supply a long and stinging chain of corroborative evidence upon this part

of the case. But it is not wanted ; no fact or argument will avail to carry conviction to the mind which can resist the impressions which the current of events has of itself contributed to produce.

We have here run hastily over the experience of five-and-thirty years, and the facts prominent within that interval of time teach us another lesson of importance, —namely, that the government of the day, and its agencies, directly and indirectly, have had a decided and most material influence in producing the convulsions that have been so strikingly and injudiciously developed. No man can look into the panic of 1815, and examine the circumstances out of which it arose, without plainly seeing the government of the day hard at work in it. The same remark applies still more strongly to the mania of 1825, and to the panic of 1826. The infatuation of the former year, and the misery of the latter, may almost be said to have been moulded by the hands of the ministers in Downing Street. The directors of the Bank of England were to blame no doubt ; but they were the agents of a higher power. If the latter had been specially instructed, nay hired at a stated price, to ensure the occurrences that took place, they could not have acted more systematically than they did for the purpose of producing the two effects. In point of fact, the measures that caused both were *part and parcel of the ministerial politics of the time*. The play of party tactics, the triumph of particular statesmen, demanded the operation, and on that account it was accomplished. Personal ambition was gratified, and the essential good of the country was either lost sight of for the time, or not cared for.

This truth should never be lost sight of. The idea of

an effective government interference at such moments is a delusion, or rather a fraud. Of what avail would be the ministerial power to check speculation, when it is the policy of the cabinet that speculation should go a-head? At such a moment the government official is the very last man to be trusted for the purpose of repression or exposure. He will naturally take his cue from his superior, and act accordingly. The directors of the Bank of England, in the years 1815 and 1825, were independent of the government, and might, if their virtue had been resolute enough, have discharged their duty without putting in jeopardy the public credit and the very existence of our commerce; but they yielded to the minister—they threw themselves into his arms—they embraced his party policy, and flung away all the considerations of prudence and duty that belonged to their office. They were corrupted, if not bribed. And if that was the case with them—if men of fortune and the highest standing in the city were thus overcome, would it not be folly to suppose that a set of inferior placemen, living by the small emoluments of their situations, and with no hope or prospect of improving their fortunes except by pleasing their superiors—would it not be the extreme of folly to suppose that such men would, in a time of excitement, sacrifice themselves to save the public? The idea is a sheer absurdity, and mere clap-trap, where it is not designed to mislead.

We may plead guilty to all that is charged against breaches of trust, many frauds committed, and confess to enormous losses as the consequence of our propensity to embark in joint-stock companies of late, as of old. Rogues, fools, and gamblers have been fully occupied in this amusement, without let or hindrance; and having

fared ill, they are one and all complaining vociferously. The fool who dreamed that a fortune was to be won in an hour, and the gambler who imagined that if directors had only kept the game alive a little longer, and enabled him to play out his stake, he too would have realized largely : all are disappointed, broken in heart and purse, and malignant accordingly. For them there is no pity : they deserve their fate. To others—to those who have been partially bitten by the mania—to those who have fairly placed their savings in shares, hoping to derive a legitimate profit from the investment—a few words of advice may be seasonable and well applied.

Is there not a law of nature, according to which much of what has happened was unavoidable ? Does not that law provide at all times, and in all cases, that fortune and misfortune, prosperity and misery, shall always travel the same highway, and bear to each other certain relations ? When bank notes flourished, did not the crime of forgery increase as our paper issues were enlarged ? Have not our poor-houses grown with our wealth ? Without offering an excuse for forgery, or making a merit of poverty, may we not reasonably admit that both are to a certain extent natural ills ; mitigable, it is true, as is the fever that rages under a tropical sun, or the plague that oppresses the densely-crowded haunts of eastern commerce ; but unavoidable under given circumstances.

Let us recollect what we have done. We have paid down more than two hundred millions of money for railways in the short space of twenty years or so. When, in ancient or modern times, has the like been done before ? Was such an achievement possible without a corresponding excitement ? Can we ripen grapes

without sunshine? Does not the hottest summer give the largest harvest? That is God's providence: and whose but His is the analogous law which decrees that it is the height and intenseness of these our speculations that commands proportionate results?

We must then put the good and the ill together, and bear the one for the sake of the other. The capitals of three kingdoms—London, Edinburgh, and Dublin—are brought within a journey of a dozen hours; and we may send a message five hundred miles in five minutes for as many shillings! Surely these are national advantages, and of inappreciable value in the acquisition of private wealth, which every man may avail himself of. Are we, then, justified in grumbling that we have paid rather dearly for a boon so great, that it almost seems like a miracle when we look back and try to replace things in the mind's eye as they were before this great change took place? This, too, is to be borne in mind—that the gain is positive: it remains, and must continue in profitable use—the loss has vanished, and will soon be forgotten.

We have all heard of the millions made by the cotton manufacture. The estimate which set down the net profits of one good year's business, within a circle of ten miles round Manchester, at thirteen millions has passed into a proverb, as one of the wonders of our time. But who has ever calculated the losses in that trade, or counted the number of men who have failed as mill-owners, spinners, and weavers? Who has totted up the sums that have been invested in those operations, and disappeared without returning a single shilling of profit? No one has done this; and yet millions have thus been squandered, often insanely, often criminally. Such excesses have occasionally been noted for censure. We have heard of

trade carried too far, and markets glutted; and then the mischief of over-production has been sharply rebuked. But the season of folly passes away, and the anger of the statesman vanishes with the first rays of returning prosperity. The public follow his pleasant example with lively footsteps; while every face is turned complacently to the bright side of the picture. And not unwisely is this done; for there is good in all these cases to be found by way of compensation for the ill sustained, and so shall we soon find it to be with our railways. They have gone through their ordeals; their working is now thoroughly understood in all its ramifications, and they will be much better and more securely managed for the future than they have ever been. Even as they are, they constitute the greatest combination of intellect, utility, and wealth that the genius of man and the progress of human improvement has developed. What, if they have their defects! Is it in the nature of the Englishmen who made them to discover and confess palpable defects in their great work, and yet allow these to remain uncorrected for any length of time?

I have spoken of three epochs—let me add, that I was present and observed them all; and that they have often occupied my thoughts. The conclusions they have brought me to I am now about to explain. I felt, ten years ago, the want of a check and regulator—not in the management of our railways only, but in the conduct and operations of our whole joint-stock system. This want, moreover, if it is to produce the desired effect, if it is not to turn good into evil, must be homogeneous in its nature: it must consist and harmonize in its character and main appliances with its proper subject. If it be foreign or

irreconcilable with that it will inevitably injure, and may, ere long, destroy the great original: it will not correct, and may extinguish. An effective audit of all our railway and joint-stock transactions is absolutely needed; but every man, who is not either weak-witted, a place-hunter, or a used-up gambler, will eschew an audit by government officers. At a time of crisis, and whenever it was worth while, they, too, would be corrupted; and, in times of no crisis, they would surely become lax and inefficient. We come thus to see that there is no security attainable but by giving the chief power to those whose interests are most at stake—that is, to the shareholders themselves. Experience shows that the machinery in use is defective; it is our duty and our interest to see that it is improved forthwith. But we must impose this obligation upon ourselves. It is our business, and not the business of government.

It is with this conviction strongly impressed upon my mind that I venture to revive my plan of 1842, with some additions suggested by the subsequent course of affairs. We want a short act of parliament to provide as follows:—

1. Every joint-stock company, of every kind, shall appoint two auditors, who shall be neither shareholders nor bondholders, and who shall always have access to the books, and shall continuously audit the accounts of the company, made up to June 30 and December 31.

2. These auditors shall, in every company, be appointed by the shareholders; and no director or officer, or other person employed by the company, shall vote or hold proxies for the election of auditors.

3. The form in which the accounts of these companies shall be made up shall be prescribed from time to time

by the Board of Trade, who shall advertise such forms in the "London Gazette."

4. Every auditor shall, after making out his audit in the form prescribed by the Board of Trade, go before a magistrate, and annex to the statement of accounts a solemn declaration, in lieu of an oath, deposing that the accounts have been accurately and faithfully audited, without any suppression or perversion of facts or figures; and every auditor, who shall be convicted of having made any false declaration in these respects, shall be deemed guilty of a misdemeanor and punished accordingly, with fine or imprisonment, at the discretion of the judge.

5. The salaries of all auditors shall be paid by the company, and proportioned to the labour of the audit; and in the event of any of the auditors of the company being dissatisfied with the amount of the remuneration given to them, they shall be at liberty to apply to the Board of Trade, who shall order such addition to be made to such remuneration, not exceeding one half the amount allowed by the company, as to them shall seem just.

Let us now shortly advert to the grounds upon which such a system of audit as this may be held to claim general and decided support. They are principally two:—1, the appointment is given to the shareholders and not to the government; and 2, the auditors are made legally responsible for the correctness of their audit.

The policy of this arrangement is to be vindicated by the strongest reasons; but I have only room to mention a few of them. I give the appointment of auditors to the shareholders, in the first place, because nothing is more likely to be better done in this world than by the persons who are most interested in its being well done. If the general body of shareholders in every joint-stock

company could sit down and audit their own accounts, no other audit would be more searching ; but, as such a process is impossible, I would confer upon them alone the power of committing the task to competent persons, otherwise unconnected with the company ; and I would exclude the directors and servants of the undertaking altogether from this proceeding, because it necessarily involves a sort of trial of the directors, who, as it is their accounts that are to be passed, ought not to be allowed to bring their weight to bear upon the result in any way.

I insist upon a liberal remuneration being made to these auditors, because to be effective the audit should be continuous, and no man of talent will devote himself to so onerous a labour if he be not well paid for it. At times the shareholders might not be disposed to reward him adequately ;—on that account, and also because his reward is the measure of every man's efficiency, I give the Board of Trade a limited power of adding to the auditor's salary. I am satisfied that the smallness of the sums paid for auditing the accounts of many of our joint-stock companies leads every year to a summary, a slovenly, and a culpable discharge of that very important duty.

I also give the Board of Trade power to fix the form in which the accounts of all joint-stock companies shall be audited. By this means, every body engaged in joint-stock operations will be subjected to the sway of one ruling principle, which, while it respects the unquestionable rights of private enterprise, and admits of no officious interference with its avocations, upon the part of the state, will ensure in every instance a complete performance of the benefit demanded. And here we may, in my opinion, lay down and accurately define the essen-

tial line which marks and distinguishes the bounds beyond which a government cannot, in these matters, legitimately go. On no pretence ought the government to be allowed to do the business of private enterprise, or any part of it; but where there is reason to believe that private enterprise fails to perform its own functions, to an extent that affects the public good, the state with great propriety may then step in, and without undertaking the work itself, or by its own officers, it may prescribe to the parties engaged a mode of doing it, which shall for the future prevent the public good from being injuriously affected.

Assuming the form of audit to be complete for the purpose, it is obvious, that if there be not wilful neglect or misrepresentation on the part of the auditors, the financial circumstances of every company, as they truly exist, must become known to the shareholders. I guard against the mischief of concealment or misrepresentation by making the auditor legally responsible for his own acts. The auditor who passes, without exposure, an account which either omits payments made, or covers improper charges, or contains items inserted under false heads, ministers to a fraud, and I would hold him responsible for that offence at the bar of public justice. Few men will be found bold enough to ask another to certify a false account, when the consequences of compliance will be a visit to the Old Bailey, and six months' imprisonment with hard labour in the house of correction.

Although I feel that I have now disposed of the question as far as argument and sound policy apply to it, there is yet another consideration which will weigh so heavily with men of experience that I cannot pass it over

in silence—and that is, the almost insurmountable difficulty we always experience in bringing the government to alter its course or style of action, or to admit proof of error or misconduct on the part of any of its servants. Let an attempt be made to show the government that it has erred, or is at fault, or that things may be better done than they have been; or let the acts of an official be called in question—the whole administration, chiefs and subordinates, spring to arms in a moment. The character of the cabinet and of the party in power, for wisdom and efficiency, is thrown into the same scale with the conduct of its officer—if you impugn him, you reproach them; and all will offer every possible resistance to the progress of inquiry, and a fair trial of the question raised. This is vindicated upon the old rule—that there can be no stable government unless the authorities are supported, and to give that rule convenient effect, all the authorities, high and low, stick together through thick and thin whenever one of them is assailed. The man who ventures upon a charge of this kind, will be sure, unless he has indomitable courage and first-rate tact, to be beaten off or beaten down. There are very few persons, I suspect, who, having once essayed to serve the public in this way, will be found willing to try the experiment a second time. The circumstances are altogether different, when a charge is made against an official not connected with the government. Every one backs that readily enough, and the government also. It follows, therefore, that if we had a government auditor of railways and joint-stock banks, and the shareholders had reason to suspect *him* of partiality, or inefficiency, or corruption, they would have the government defending their own official and resisting the exertions of the share-

holders for an investigation into his conduct. This, obviously, is the last thing to be desired ; for the government ought never to appear as the protector of offenders, but always be in a condition to forward the cause of justice.

For my own part, I mean no disrespect to the great body of government officers, when I say, that as far as I have had an opportunity of becoming acquainted with them, I have found them much the same as other men—open to the same influences, gratified by the same attentions, and subdued by the same temptations. If a government officer was appointed to audit the accounts of a railway company or a bank, of which I was chairman, and if he happened to have a son or a brother much in want of 500*l.* a year ; and if I—having the patronage of a situation producing that income—had filled it up, by giving it to this needy son or brother ; and if, with him in my employment, I should happen to divert a few thousands of the company's money to a purpose not warranted ; or, if I should be a few thousand pounds in arrear of calls ; I should be very much surprised indeed, if my accountants could not so enter these matters in the books, as not to disturb the gratitude of my friend the government auditor, whose son or brother held a comfortable situation during my good pleasure. Need I say how differently the ease would stand if the auditor was a well-paid officer, dependent for his situation upon the shareholders, and responsible to the law for the propriety of his acts ?

I have been considering this audit question, and the working of a joint-stock system, for a length of time. I remember 1825-6, 1835-6, 1845-6 ; I looked on while the extreme events of those periods of convulsion were

passing like a moving panorama ; I saw the same men wild with the excitement and exultation of the one state of things, and beggared and broken down by the distress of the other ; and the conviction deeply seated in my mind, as the result of all I have seen and thought upon the subject is, that private enterprise, embodied in our joint-stock system, constitutes an essential portion of the national strength and greatness ; that any thing which unduly impedes its action, or narrows its scope, must inevitably reduce and imperil our wealth and being as a nation of superior power ; and lastly, that there is no safety or security for the immense capital invested in these undertakings, if a sound audit of accounts be not made common to them all. The present moment is especially favourable to the introduction of this improvement. The fortunes of hundreds of thousands of persons are dependent upon its adoption. I therefore invite the public at large, and every holder of a share in a joint-stock company, to consider well the propositions I have here offered ; and, above all things, I advise them not to let the coming session of parliament pass, without the enactment of a measure applicable to all companies, and which, if not an effectual remedy for the evils complained of, shall at least take a decided step in another and a better direction than we have hitherto been following.

THE END.

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